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SUBJECT: GRENADA EXPECTING LOWER GROWTH

¶1. (SBU) Summary: Grenada's Ministry of Finance painted a somber picture of the country's economic situation in recent discussions. Grenada is still suffering the aftereffects of Hurricanes Ivan (2004) and Emily (2005) with high debt and an underprepared tourist industry. The international economic slowdown is expected to have a negative impact on the tri-island state, as tourism arrivals and remittances are expected to drop in 2009. Revenues are weak and will drop further after December 31 when the 3 percent national reconstruction levy (NRL) automatically expires. To address this, the government says it intends to implement a value added tax (VAT) in October 2009. Despite the strain, the government promised to maintain International Monetary Fund discipline and hopes for an extension of Paris Club relief. End summary.

DIFFICULT TIMES AHEAD

¶2. (U) Services account for 88 percent of the Grenadian economy, followed by 6 percent in light manufacturing, 5 percent in agriculture, and 1 percent in mining/quarrying. Tourism has replaced nutmeg as the primary foreign exchange earner, followed by remittances and light manufacturing. The GOG predicts that, because of the world-wide economic slowdown, there will be fewer remittances sent to Grenadians, fewer tourism arrivals, lower and/or slow foreign direct investment, and less access to credit from the banking system in 2009. As a result, projected economic growth for 2009 is 1.6 percent. Inflation is expected to be lower than in 2008 (8.6 percent), but still uncomfortably high at around 6.7 percent. Inflation for food remains at about 15 percent and is expected to remain at that level.

¶3. (U) Rebuilding the country's infrastructure after the double whammy of Hurricanes Ivan (2004) and Emily (2005) has resulted in a 109 percent debt to gross domestic product (GDP) ratio. The demise of the nutmeg industry following Ivan left the GOG scrambling to find alternative sources of foreign exchange. Although the government intends to rebuild nutmeg production, the reality is that it will take eight to fifteen years for newly planted trees to mature and bear at pre-hurricane levels.

¶4. (SBU) Revenues will drop in 2009 as the 3 percent national reconstruction levy (NRL), introduced after Hurricane Ivan to help rebuild, expires on December 31, 2008. The government promised on November 4 that it will finally implement value added tax (VAT) in October 2009 to replace the general consumption tax (GCT). The irony is that the previous government tried to implement VAT in October 2007 and was stymied by the political maneuvering of the opposition (now in power).

COMMENT

¶5. (SBU) The loss of nutmeg as the major foreign exchange earner when Hurricane Ivan destroyed the majority of the nutmeg trees in 2004 (as well as most other vegetation), continues to bedevil the island. However, agriculture has been a dying sector in Grenada for many years, as too few young Grenadians are entering the profession to replace retiring farmers.

¶6. (SBU) Grenada has never focused as seriously on tourism as other Caribbean islands. The quality of the product varies wildly and pricing has little to do with reality: extremely primitive facilities charge the same high rates as more sophisticated and better managed ones. Local hotel and restaurant owners do not work together to market the island, leaving an obvious major potential source of tourism - the United States - virtually untapped. Changing this lackadaisical attitude is increasingly urgent if tourism is to succeed in Grenada.

¶7. (SBU) Remittances are vitally important to the local economy and also an incentive to some to not work. A sizeable percentage of apparently unemployed Grenadians choose not to join the labor market because they get enough money from relatives to live on and to buy the latest razor cell phones and designer knock-off clothing. Some families send barrels, not cash, with clothing or electronic goods, which the recipient sells on the street. Two barrels a year can enable someone to scrape by. While there is unemployment in Grenada, there is a difference between those who want work but cannot find it due to lack of skills or education and those who choose not to work. Should the global economic downturn last too long and impact expatriate Grenadians enough that they reduce the assistance they send home, this latter group of Grenadians could become increasingly desperate and look to a strapped government for assistance.

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